



Agenda Date: 9/10/03

Agenda Item: 2E

STATE OF NEW JERSEY

Board of Public Utilities

Two Gateway Center

Newark, NJ 07102

www.bpu.state.nj.us

IN THE MATTER OF THE PETITION OF NEW)
JERSEY NATURAL GAS COMPANY FOR)
AUTHORITY (A) TO ISSUE AND DELIVER)
SERIES HH FIRST MORTGAGE BONDS OR)
SIMILAR FINANCIAL INSTRUMENTS IN THE)
PRINCIPAL AMOUNT OF UP TO \$12 MILLION;)
(B) TO ISSUE AND DELIVER OVER THE NEXT)
THREE (3) YEARS FIRST MORTGAGE)
BONDS, AND MEDIUM TERM NOTES IN THE)
PRINCIPAL AMOUNT OF UP TO \$100)
MILLION; AND (C) TO EXECUTE AND)
DELIVER SUPPLEMENTAL INDENTURES,)
LOAN AGREEMENTS, BOND PURCHASE)
AGREEMENTS, AND RELATED)
AGREEMENTS AND INSTRUMENTS WITH)
BANKS AND/OR INSURANCE COMPANIES IN)
CONNECTION THEREWITH)

ENERGY

ORDER OF APPROVAL

DOCKET NO. GF03030223

(See Attached Service List)

BY THE BOARD:

On March 25, 2003, New Jersey Natural Gas Company ("Petitioner"), a public utility of the State of New Jersey, filed a petition with the New Jersey Board of Public Utilities ("Board"), pursuant to N.J.S.A. 48:3-7 and 48:3-9, requesting authority to: (a) issue and deliver Series HH First Mortgage Bonds or similar financial instruments in the principal amount of up to \$12 million; (b) issue and deliver over the next three years, first mortgage bonds, and medium term notes in the principal amount of up to \$100 million; and (c) execute and deliver, where applicable, a Supplemental Indenture, Loan Agreements, Bond Purchase Agreements, and related agreements and instruments with banks and/or insurance companies in connection therewith without further order of the Board. Petitioner asserts that the proposed transaction will allow Petitioner to reduce its long-term and short-term debt costs and to fund spending for utility construction at lower interest rates, which will ultimately be passed on to Petitioner's customers in the form of lower capital costs.

In July 2002, the New Jersey Economic Development Authority ("NJEDA") approved Petitioner's loan application for \$12 million of new funds to finance construction in Petitioner's Northern Division over the three fiscal year periods 2002 (\$4.25 million), 2003 (\$4.7 million) and 2004 (\$3.05 million). Petitioner proposes to issue and deliver Petitioner's Series HH First Mortgage Bonds or similar financial instrument ("Series HH Bonds") in the principal amount of up to \$12 million; to execute and deliver a Thirtieth Supplemental Indenture to Petitioner's Indenture of

Mortgage and Deed of Trust dated April 11, 1952, as security for the Series HH Bonds; and to execute and deliver a Loan Agreement and a Bond Purchase Agreement to support NJEDA's sale of its revenue bonds.

Petitioner proposes to issue and deliver the Series HH Bonds to secure its obligations under a loan agreement with the NJEDA which secures the NJEDA securities pursuant to a tax-exempt Multi-Mode Program. In the event Petitioner utilizes a variable rate mechanism under such a program, Petitioner proposes to enter into an agreement with one or more agents to manage such a program on a basis whereby rates on the NJEDA bonds would be set by agreement between the agent(s) and prospective bond purchasers. In the event Petitioner utilizes a fixed rate mechanism, the fixed rate would be set through competitive bidding, and the new NJEDA bonds would be sold to the winning bidder. The proposed Series HH bonds will mature in not more than thirty-five (35) years, i.e., not later than December 31, 2038.

As security for the proposed Series HH Bonds, Petitioner proposes to enter into a Thirtieth Supplemental Indenture of Mortgage with BNY Midwest Trust Company, Chicago, Illinois (successor company to Harris Trust and Savings Bank) as Trustee, which together with the Indenture of Mortgage and Deed of Trust dated April 11, 1952, as previously amended and supplemented, embodies all terms, conditions, rights and limitations applicable to the proposed Series HH Bonds. As further support for the NJEDA bonds or the remarketing thereof, Petitioner may also enter into agreements with banks and/or insurance companies and incur obligations thereunder.

Petitioner also proposes to issue and deliver over the next three (3) years, through private placement first mortgage bonds and medium term notes (MTN's), in the principal amount of up to \$100 million without further order of the Board. Petitioner will use the proceeds to refund short-term debt and refinance long-term debt and to finance construction spending. For example, on or around the due date of December 1, 2002 Petitioner redeemed its 7.50% Series V First Mortgage Bonds ("Series V Bonds") with a principal balance of \$25 million with short term debt of the same amount. Petitioner proposes to use part of the \$100 million to repay the short-term debt associated with retiring the Series V Bonds. In addition, Petitioner's 8.25% Series Z First Mortgage Bonds ("Series Z Bonds") with a principal balance of \$25 million mature October 1, 2004. Petitioner proposes to use part of the \$100 million to retire the Series Z Bonds. The proposed financing will provide Petitioner with the flexibility to take advantage quickly of lower interest rates, which ultimately will be passed on to Petitioner's customers in the form of a reduced cost of capital. The first mortgage bonds, private placement bonds and medium term notes will be issued on a competitive basis. In addition, Petitioner also proposes to execute and deliver, where applicable, Supplemental Indentures, Loan Agreements, Bond Purchase Agreements, and related agreements and instruments with banks and/or insurance companies in connection therewith.

By letter dated August 29, 2003 the Ratepayer Advocate indicated that it does not object to the approval of the proposed bond issuances in question but reserves its right to examine this transaction in the next base rate filing by the Company.

The Board, having considered the petition and exhibits submitted in this proceeding, FINDS that the proposed transaction should result in savings which will be passed on to customers in the form of lower capital costs. Moreover, the proposed financing is consistent with the Board's policy that utilities engage in competitive sales of debt financing. Accordingly the Board FINDS the proposed transaction is in accordance with the law, is in the public interest and approving the purposes thereof, HEREBY ORDERS that petitioner be and is HEREBY AUTHORIZED to: (a) issue and deliver over the next three years Series HH First Mortgage Bonds to evidence

its obligations under a loan agreement with the NJEDA or similar financial instruments in the principal amount of up to \$12 million to the NJEDA to secure the NJEDA's revenue bonds to be issued in like amounts and pricing terms to be sold pursuant to a tax-exempt Multi-Mode Program without further order of this Board; (b) issue and deliver over the next three years first mortgage bonds, private placement bonds and medium term notes in the principal amount of up to \$100 million without further order of the Board; and (c) execute and deliver, over the next three years where applicable, Supplemental Indentures, Loan Agreements, Bond Purchase Agreements, and related agreements and instruments with banks and/or insurance companies in connection therewith without further order of this Board.

This Order is issued subject to the following conditions:

1. This Order shall not be construed as directly or indirectly fixing, for any purpose whatsoever, any value of the tangible or intangible assets now owned or hereafter to be owned by Petitioner.
2. This Order shall not affect nor in any way limit the exercise of the authority of this Board or of the State of New Jersey in any future proceeding with respect to rates, franchises, services, financing (including method of sale of securities), accounting capitalization depreciation or any other matters affecting Petitioner.
3. Petitioner shall issue the New Securities solely for the purposes authorized in this Order.
4. Petitioner shall furnish this Board with copies of each Indenture and/or Supplemental Indenture, as executed.

5. Petitioner shall furnish this Board with copies of all documents as executed and filed with other regulatory agencies relating to the New Debt Securities.

DATED: September 11, 2003

BOARD OF PUBLIC UTILITIES
BY:

[SIGNED]

JEANNE M. FOX
PRESIDENT

[SIGNED]

FREDERICK F. BUTLER
COMMISSIONER

[SIGNED]

CAROL J. MURPHY
COMMISSIONER

[SIGNED]

CONNIE O. HUGHES
COMMISSIONER

[SIGNED]

JACK ALTER
COMMISSIONER

ATTEST:

[SIGNED]
KRISTI IZZO
SECRETARY

**/M/O New Jersey Natural Gas Company
First Mortgage Bonds \$12M: First Mortgage Bonds
\$100M; Financings**

BPU Docket No. GF03030223

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